

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF THE BRACKEN COUNTY )  
WATER DISTRICT FOR (1) THE APPROVAL OF )  
A PROPOSED PLAN TO FINANCE A WATER ) CASE NO.  
WORKS PROJECT; AND (2) THE APPROVAL ) 2006-00313  
OF THE PROPOSED INCREASE IN RATES FOR )  
WATER SERVICE )

ORDER

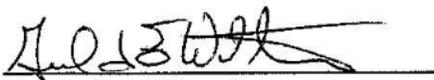
On June 21, 2006, Bracken County Water District ("Bracken County") filed its application for Commission approval of debt financing to construct a waterworks improvement project and a proposed increase in water rates. The debt financing was approved by the Commission's August 7, 2006 Order. Commission Staff, having performed a limited financial review of Bracken County's operations, has prepared the attached Staff Report containing Staff's findings and recommendations regarding the proposed rates. All parties should review the report carefully and provide any written comments or requests for a hearing or informal conference no later than 10 days from the date of this Order.

IT IS THEREFORE ORDERED that all parties shall have 10 days from the date of this Order to file written comments regarding the Staff Report or requests for hearing or informal conference. If no request for a hearing or informal conference is received within 10 days, this case will be submitted to the Commission for a decision.

Done at Frankfort, Kentucky, this 10<sup>th</sup> day of October, 2006.

By the Commission

ATTEST:

*for the*   
Executive Director

STAFF REPORT  
ON  
BRACKEN COUNTY WATER DISTRICT  
CASE NO. 2006-00313

On June 21, 2006, Bracken County Water District ("Bracken County") filed its application for Commission approval of its proposed water rates. Commission Staff ("Staff") performed a limited financial review of Bracken County's test year operations for the calendar year ending December 31, 2005. Staff's review was performed on August 9, 2006. The scope of Staff's review was limited to obtaining information as to whether the test period operating revenues and expenses were representative of normal operations. Insignificant or immaterial discrepancies were not pursued and are not addressed herein.

Commentary

In recent years, Bracken County's water system has expanded at a substantial rate. According to its PSC Annual Reports, Bracken County's total utility plant increased from \$3,876,162 at the end of 2001 to \$5,016,726 at the end of 2003, and further increased to \$8,599,961 at the end of 2005. In addition, Bracken County in early 2006 proposed and the Commission approved a \$3,100,000 construction project known as the Delisle Curve Water Project. The additional debt and depreciation expense associated with these plant additions has required Bracken County to request this rate increase. In fact, Bracken County's depreciation expense increased from \$131,575 in 2004 to \$252,716 in 2005, and will further increase with the completion of the Delisle Curve project. In this case, Bracken County proposes a revenue increase of \$413,971

or 55 percent over normalized test year revenue of \$751,589, but this proposal would not fully recover its pro forma depreciation expense once the additional debt payments are made. This proposal would increase the water bill for a residential customer using 5,000 gallons from \$26.37 to \$40.47, an increase of 53 percent.

Bracken County's application reflected average debt service costs for existing debt of \$210,691 for the three years from 2006 through 2008, which it proposed to increase to \$480,283, an adjustment of \$269,592, to reflect the new debt associated with the Delisle Curve project. Bracken County's proposed adjustment was based upon taking the 2008 principal and interest payment of \$224,660 on the new debt and allowing a 20 percent coverage of \$44,932. However, the Commission normally uses a three-year average of debt service costs to determine revenue requirements for water districts. In this instance, Bracken County's payments on the new debt do not begin until 2008, so there are no payments on the new debt in 2007. Using a three-year average for the period 2007-2009 for both the existing and the new debt, and allowing for 20 percent coverage, reduces the total debt service to \$393,346, an adjustment of \$86,937 as shown in Attachment C.

#### Cost of Service Study

##### Field Review:

Staff conducted a field review and had discussions with Carryn Lee of The Kentucky Rural Water Association. Ms. Lee is responsible for the Cost of Service Study filed in Bracken County's application. This Cost of Service Study follows acceptable standards outlined by the American Water Works Association's "Water Rates Manual M-1 Fifth Edition."

Normalized Revenue:

Bracken County's 2005 Annual Report reported revenue from water sales of \$723,473 and was adjusted by Ms. Lee to develop the normalized revenue from rates of \$751,589. Ms. Lee's adjustments were for additional customers that are to be added during the construction project sought with this rate increase as well as an adjustment in rates during the test year. Staff recommends that the Commission accept Ms. Lee's adjustments to normalize revenues.

Staff's Rate Discussion:

Staff concurs with the rates and rate structure as outlined in the application. Staff recommends that the Commission accept these proposed rates.

Jason Green is responsible for all revenue adjustments and the calculation of the proposed rates. Jack Kaninberg is responsible for the determination of the revenue requirement. Based on Staff's recommended pro forma operations as shown in Attachment A, Staff recommends that Bracken County's requested increase of \$413,971 be granted. This increase will allow Bracken County sufficient funds to meet its operating expenses and its debt service requirements. Therefore, Staff is of the opinion that the rates as shown in Attachment B of this report are reasonable and should be approved by this Commission.

Signatures

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Prepared by: Jack Kaninberg  
Financial Analyst, Water and Sewer  
Revenue Requirements Branch  
Division of Financial Analysis

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Prepared by: Jason Green  
Rate Analyst, Communications, Water,  
and Sewer Rate Design Branch  
Division of Financial Analysis

ATTACHMENT A

Bracken County WD Proforma	2005	Adj.	Proposed Adjusted	Staff Adjstmts.	Notes	Staff Adjusted
Water Sales Revenue	\$723,473	\$28,117	\$751,590	0		\$751,590
Other Operating Revenue	\$156,858	(\$83,536)	\$73,322	0		\$73,322
Water Sales Revenue	\$880,331	(\$55,419)	\$824,912	0		\$824,912
Employee Salaries	\$142,115		142,115	9,517	(A)	\$151,632
Officer Salaries	7,200		7,200	0		\$7,200
Pensions/Benefits Expense			0	35,608	(B)	\$35,608
Purchased Water	279,721		279,721	5,590	(C)	\$285,311
Purchased Power	33,902		33,902	0		\$33,902
Materials/Supplies	34,276		34,276	0		\$34,276
Contract Services-Acct.	3,500		3,500	300	(D)	\$3,800
Contract Services-Other	22,391		22,391	125	(E)	\$22,516
Building Rent	7,200		7,200	0		\$7,200
Transportation Exp.	20,065		20,065	(1,200) (4,020)	(F)	\$14,845
Insurance-Gen Liability	7,195		7,195	0		\$7,195
Insurance –Workers Comp	6,724		6,724	0		\$6,724
Insurance -Other	35,608		35,608	(35,608)	(G)	0
Bad Debt	16		16	0		16
Amortization of Other	0		0	0		0
Office supplies	17,794		17,794	0		\$17,794
Misc. Exp.	13,814		13,814	(540)	(H)	\$13,274
Reg. Com Exp.	1,372		1,372	74	(I)	1,446
<b>Tot. Water Util. Exp.</b>	<b>\$632,893</b>		<b>\$632,893</b>	<b>\$9,846</b>		<b>\$642,739</b>
Depreciation Expense	252,716		252,716	0		\$252,716
Amortization Expense	489		489	1,520	(J)	\$2,009
Taxes OT Income	13,100		\$24,828	(\$13,100)	(K)	\$12,151
	11,728			\$423		
<b>Total Op. Expenses</b>	<b>\$910,926</b>		<b>\$910,926</b>	<b>(\$1,311)</b>		<b>\$909,615</b>
Total Operating Income	(\$30,595)		(\$86,014)	\$1,311		(\$84,703)

Debt						
Principal	\$89,374		\$89,374			
Interest	\$86,202		\$86,202			
20% coverage	\$35,115		\$35,115			
New Debt – KRWA		\$224,660	\$224,660			
20% Debt Coverage		\$44,932	\$44,932			
Total Debt Expense	\$210,691	\$269,592	\$480,283			393,346

**Revenue Requirement**

\$ 909,615 - Adjusted Op. Expenses  
 \$ 393,346 - Proforma Debt Service Coverage  
 \$1,302,961 - Revenue Requirement  
 \$ (678) – Less Interest Income  
 (\$ 824,912)– Less Normalized Revenues  
 \$ 477,371 - Justified Increase  
 \$ 413,971 – Requested Increase (55% increase per application)

\*Note – Bracken County's Application and its 2005 PSC Annual Report differ in certain respects. The above figures were taken from the application, although Staff adjusted to exclude the apparent double-counting of Taxes Other Than Income in the Application at Exhibit 5.

**Reference Notes:**

**(A) Salaries and Wages Expense** was adjusted to recognize current salary levels, as well as allowing a full year's wages for an employee who began employment on 5/20/05

Employee	Hrly rate	weekly	annual
Distribution Supervisor	\$13.50	\$540	\$28,080
Office Assistant - 16 hrs./week	11.00	\$176	\$9,152
Maintenance Worker-Eff. 5/20/05	9.50	\$380	\$19,760
Office Manager	22.00	\$880	\$45,760
Maintenance Worker	10.25	\$410	\$21,320
Maintenance Worker	13.25	\$530	\$27,560
Total Expense			\$151,632

**(B) Pensions and Benefits Expense** was adjusted to reclassify employee health and life insurance expenses that had been classified as Insurance-Other by the District.

**(C) Purchased Water Expense** was adjusted to reflect normalized purchases at the current purchased water rate of \$1.29 per thousand gallons effective 2/5/06.

**(D) Contract Services-Accounting Expense** reflects the CPA's current fee of \$3,800.

**(E) Contract Services-Other Expense** was adjusted by \$125 to reflect increased costs for janitorial services.

**(F) Transportation Expense** was adjusted for two items. The first was the discontinuance of vehicle reimbursement expense for the Distribution Manager, which totaled \$1,200 in 2005. The second adjustment was to remove \$4,020 of nonrecurring expenses, and to allow for their recovery over a multi-year period in Amortization Expense.

**(G) Insurance-Other Expense** was adjusted to remove employee health and life insurance expenses and reclassify them to Pensions and Benefits Expense.

**(H) Miscellaneous Expense** was adjusted by \$540 to remove a nonrecurring charge for lead and copper testing, and to allow for its recovery over a multi-year period in Amortization Expense.

**(I) Regulatory Commission Expense** was adjusted by \$74 to reflect the most recent PSC assessment.

**(J) Amortization Expense** was increased by \$1,520 to allow recovery over three years for certain nonrecurring items that were expensed in 2005, as follows:

Item – (Account)	Date	Amount	Yrs.	Annual Amount
Vernon Manuf – Loading station (Transp. Exp.)	1/26/05	\$500	3	
TE Service- Telemetry repair. (Transportation Exp.)	6/13/05	\$1,353	3	
Straeffler Pump (Transportation Exp.)	12/26/05	\$2,167	3	
Lead and copper test (Miscellaneous Exp.)		\$540	3	
		\$4,560	3	\$1,520

**(K) Taxes Other Than Income Expense** was adjusted to allow for FICA taxes based on Salaries Expense of  $\$158,832 \times 7.65\% = \$12,151$ . Staff also adjusted the figures in the Application at Exhibit 5 to exclude the apparent double-counting of Payroll Taxes and the Regulatory Commission Expense totaling \$13,100.



<b>Attachment C – Debt Adjustment</b>					
<b>Adjustment to New Debt</b>	<b>BCWD Proposed</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>3-yr. avg.</b>
Principal	\$59,000				
Interest	\$165,660				
Total P&I	\$224,660	0	\$224,660	\$224,415	\$149,692
20% Coverage	\$44,932	0	\$44,932	\$44,883	\$29,938
<b>Total</b>	<b>\$269,592</b>	<b>0</b>	<b>\$269,592</b>	<b>\$269,298</b>	<b>\$179,630</b>
<b>Adjusted</b>	<b>\$179,630</b>				
<b>Adjustment</b>	<b>\$89,962</b>				
<b>Adjustment to Existing Debt</b>	<b>BCWD Proposed</b>	<b>Staff Adjustments Using 2007 – 2009 Debt Costs</b>			<b>3-yr. avg. 2007-09</b>
Principal	\$89,374				
Interest	\$86,202				
Total P&I	\$175,576			\$2,521	\$178,097
20% Coverage	\$35,115			\$504	\$35,619
Total DSC Existing Debt	\$210,691			\$3,025	\$213,716
<b>Total Adjustment</b>	<b>Existing Debt</b>	<b>BCWD Proposed New Debt</b>	<b>BCWD Adjusted</b>	<b>Staff Adjustment</b>	<b>Staff Adjusted</b>
Principal	\$89,374		\$89,374	\$2,521	\$178,097
Interest	\$86,202		\$86,202		
.20 Coverage	\$35,115		\$35,115	\$504	\$35,619
New Debt – KRWA		\$224,660	\$224,660	(\$89,962)	\$149,692
.20 Debt Coverage		\$44,932	\$44,932		\$29,938
<b>Total Debt Expense</b>	<b>\$210,691</b>	<b>\$269,592</b>	<b>\$480,283</b>	<b>(\$86,937)</b>	<b>\$393,346</b>